

Sunset Public Hearing Questions for  
**BOARD OF CLAIMS**  
Created by Section 9-8-101, *Tennessee Code Annotated*  
(Sunset termination June 2009)

1. Provide a brief introduction to the Board of Claims, including information about its purpose, statutory duties, staff, and administrative attachment.

**Purpose**

**The purpose of the Board is to provide general oversight of the state's programs for compensating persons damaged by the State or its employees. The Board also reviews and authorizes the purchase of insurance for the State property insurance program and the State aviation insurance program.**

**Statutory Duties**

- **The Board of Claims has authority to hear and determine claims that do not fall within the jurisdiction of the Tennessee Claims Commission.**
- **The Board is authorized to pay final judgments in civil lawsuits against state employees.**
- **The Board reviews and makes recommendations to the Commissioner of Finance and Administration and the General Assembly as to the required funding level of the risk management fund, the contribution required of each state agency, department and institution to achieve the required funding, the required funding for administrative costs, and appropriate levels of self-insurance.**
- **The Board reviews and approves purchase of insurance policies designed to pay claims against the state or its employees arising from contract or tort.**
- **The Board hears claims for compensation by persons wrongfully imprisoned and granted an exoneration or unconditional pardon due to innocence.**
- **The Board also reviews the costs of defending actions brought against state employees, reported annually by the Attorney General and Reporter.**

**Funding, Staff, and Administrative Attachment**

**The Division of Claims Administration in the Treasury Department provides administrative support to the Board. No staff is dedicated full time to Board activities.**

2. Provide a list of current board members, or their designees, and describe how membership complies with Section 9-8-101, *Tennessee Code Annotated*.

**Pursuant to TCA 9-8-101, the Board of Claims membership is composed of the commissioner of personnel, the commissioner of finance and administration, the state treasurer, the comptroller of the treasury, and the secretary of state. Each member may appoint a designee.**

**Below are the current members and designees that comply with that statutory authority:**

**David H. Lillard, Jr., State Treasurer, Chairman**

**Dave Goetz, Commissioner of Finance and Administration  
Designee – Martha Nichols, Legal Counsel**

**Tre Hargett, Secretary of State**

**Deborah Story, Commissioner of Human Resources  
Designee – Kae Carpenter, Legal Counsel**

**Justin Wilson, Comptroller**

3. What were the board's revenues (by source) and expenditures (by object) for fiscal years 2007 and 2008?

**The Board of Claims does not have any direct revenues or expenditures. The board members do not receive any compensation for Board duties.**

4. How many times did the board meet during fiscal years 2007 and 2008, and how many members were present at each meeting?

**The Board of Claims met four (4) times each during the fiscal years 2007 and 2008. Below are the dates of the meetings and the number of members or voting designees present:**

<u>Meeting Dates</u>	<u>Members Present</u>
<i>Fiscal Year 2006-07</i>	
September 20, 2006	5
December 7, 2006	5
May 3, 2007	5
June 28, 2007	5
<i>Fiscal Year 2007-08</i>	
December 19, 2007	5
January 18, 2008	5
May 30, 2008	4
June 20, 2008	4

5. What reports does the board prepare on its operations, activities, and accomplishments, and who receives these reports?

**Activities of the Board are summarized within the annual Treasurer's Report. This report is distributed in January of each year to all members of the General Assembly, the Governor, and members of the cabinet. Below is an excerpt from page 50 of the 2007 Treasurer's report:**

*"The Board of Claims has the authority to hear claims which do not fall within the jurisdiction of the Tennessee Claims Commission. During the 2007 fiscal year, the Board took action on a total of five claims. The Board also reviews and approves the purchase of insurance policies by the state and makes recommendations to the Commissioner of Finance and Administration and the General Assembly regarding the required funding for the Risk Management Fund."*

**Below is an excerpt from page 51 of the 2008 Treasurer's report:**

*"The Board of Claims has the authority to hear claims which do not fall within the jurisdiction of the Tennessee Claims Commission. During the 2008 fiscal year, the Board took action on a total of two claims. The Board also reviews and approves the purchase of insurance policies by the state and makes recommendations to the Commissioner of Finance and Administration and the General Assembly regarding the required funding for the Risk Management Fund."*

**The Board also reviews and approves an annual report prepared by the state treasurer to the Fiscal Review Committee and the State Building Commission concerning the operation of the property insurance program.**

6. Does the board have a web site? If so, please provide its web address. What kind of public information is provided on the site?

**The Board of Claims does not have a web site; however, as stated in Question #5, the Board's activities are reported in the annual Treasurer's Report, which is provided at [www.tn.gov/treasury](http://www.tn.gov/treasury).**

7. Is the board subject to Sunshine law requirements (Section 8-44-101 et seq., *Tennessee Code Annotated*) for public notice of meetings, prompt and full recording of minutes, and public access to minutes? If so, what procedure does the board have for informing the public of its meetings and making its minutes available to the public?

**The Board is subject to the Sunshine Law requirements. Public notices of the meetings are posted one week prior to the meeting in the Legislative Plaza. Minutes of the Board meetings are kept by the Executive Secretary and copies of the minutes are available to the public upon request.**

8. What is the balance in the Claims Award Fund as of the end of fiscal year 2008? What were the revenues (by source) and expenditures (by object) for the fund during fiscal years 2007 and 2008?

**See Attachment A, the June 30, 2008 financial statements for the Risk Management Fund.**

9. What types of claims fall within the board's jurisdiction? How many claims of each type were filed with the board during the last two fiscal years (2007 and 2008)? How many of those claims required a formal hearing before the board? What was the total dollar value of judgments awarded and the total by type of claim during the two year period? What was the average judgment per claim?

**The Board's jurisdiction falls into two general categories: First, any claim for which the Claims Commission lacks jurisdiction; second, claims by state employees for reimbursement of judgments under Section 9-8-112.**

**Claims filed with or heard by the Board during the last two fiscal years are as follows:**

<u>Type</u>	<u>Number filed</u>	<u>Number Closed</u>	<u>Disposition</u>	<u>Paid</u>
Reimbursement of judgment/settlement	2	2	approved (2)	\$350,000 9,102
Failure to record lien or other title information	1	0	pending (1)	N/A
Wrongful Imprisonment	2	1	dismissed (1) pending (1)	N/A
Property Damage by firefighters	1	1	approved (1)	\$ 1,540
Misrepresentation	2	2	dismissed (2)	N/A
Property damage by foster child	1	1	dismissed (1)	N/A

10. Have there been any noticeable changes or trends concerning claims during the last few years? For example, has there been an increase or decrease in the total number of claims or specific types of claims, or a significant change in the size of claims or judgments?

**No significant trend in claims filed with the Board has been seen.**

11. What are the most recent recommendations made by the board concerning the funding of the risk management fund, the funding of the claims commission administrative costs, and the appropriate levels of self- or purchased insurance as authorized by Section 9-8-108(a)(3)(A), (B), and (C), *Tennessee Code Annotated*?

**On an annual basis, the Board's actuary prepares a funding study for the Risk Management Fund. In this 200 page study, the actuary provides two basic pieces of information. First, the actuary develops an estimate of liabilities created under the State's waiver of sovereign immunity existing at June 30 (i.e. general liability, automobile liability, workers' compensation liability, and medical malpractice liabilities). These liability estimates are incorporated within the financial statements for the risk management fund. Second, the actuary estimates the losses occurring in the ensuing fiscal year. These estimated losses are then distributed to each department based upon the department's exposure to losses. These amounts are then billed to each department and credited to the risk management fund. As part of the development of these premiums, the Board collects budget information from all agencies that provide services to the risk management fund. Examples include the cost incurred by the Attorney General in defending the State, the cost of adjusting claims within the Division of Claims Administration, and the cost of the Tennessee Claims Commission. These budget amounts are included within the premiums that are billed to each department.**

**Historically, the board has recommended the State self-insure liabilities created under the State's immunity waiver rather than purchase commercial insurance.**

**The Board's recommended 2009-10 budget for the Risk Management Fund is shown as Attachment B.**

12. Has the board retained consultants as authorized by Section 9-8-108(a) (6), *Tennessee Code Annotated*? If so, please explain.

**Yes, the Board retains three consultants: an actuary, a property insurance broker and an aviation insurance broker.**

**The actuary, Willis of Tennessee, annually performs a self-insured funding study of the expected liability of the risk management fund. The study, which is presented each year to the Board, contains information about fund performance, recommended funding levels for the lines of coverage, expected loss costs and premium allocations to departments by allotment codes. The actuary may perform other risk management services as requested by the Treasury Department. The current term of the actuarial contract with Willis of Tennessee is from July 1, 2007 to June 30, 2010, with one-year renewal options through June 30, 2011 and June 30, 2012. Willis of Tennessee was chosen through a request for proposal process.**

**The property insurance broker, Willis of Tennessee, is responsible for monitoring the property & casualty insurance markets and negotiating acceptable terms, conditions, and pricing for the State's property insurance, builders' risk insurance, boiler & machinery insurance, fine arts insurance, and fidelity & crime insurance.**

The broker presents an annual report that provides insurance procurement options and makes recommendations for consideration by the Board. The original contract term was April 12, 2006 through June 30, 2009. There is a provision in contract FA-06-16742-00 for two, one-year extension options. The first of the one-year options is being executed. Willis of Tennessee was selected through a request for proposal process.

The aviation insurance broker, Arthur J. Gallagher Risk Management Services, Inc., is responsible for monitoring the aviation insurance markets and negotiating acceptable terms, conditions, and pricing for the State's fleet of fifty-one (51) aircraft currently maintained by the Department of Agriculture, Middle Tennessee State University, Department of Safety, T.B.I., Department of Transportation, TWRA, and the University of Tennessee. The broker presents an annual report that provides insurance procurement options and makes recommendations for consideration by the Board. The initial term for contract FA-09-25577-00 is August 1, 2008, through October 31, 2009, followed by two annual terms of November 1, 2009, through October 31, 2010, and November 1, 2010, through October 31, 2011. Arthur J. Gallagher was selected through a request for proposal process.

13. Has the board promulgated rules as authorized in Section 9-8-108(a) (10), *Tennessee Code Annotated*? If so, please cite the reference.

The Board has promulgated rules that are codified in Chapter 0300-1 of the *Official Compilation of the Rules and Regulations of the State of Tennessee*. The rules set forth the manner by which claims are filed and considered by the Board.

14. Section 9-8-110, *Tennessee Code Annotated* requires the State Treasurer to establish a risk management section to compile information and administer risk management programs. Please describe the section's activities.

Risk Management has created loss prevention and control initiatives as the result of reviewing historical workers' compensation claims data. The Division's initial focus has been on the eight agencies that account for approximately 84% of the State's total workers' compensation loss costs. Site visits have been made to these agencies to determine the extent of safety program implementation (if any). Risk Management conducts safety surveys to determine weaknesses. Strategies are then developed to address any problem areas. An early return to work (ERTW) program using transitional duty has been implemented as a strategy to reduce lost workdays and associated costs. A Quarterly Workers' Compensation Loss Report is provided to keep state agencies informed of their claim & loss profiles. The Division currently offers a number of loss prevention consulting services including job hazard analyses, workstation reviews, workers' compensation safety reviews, fire/life safety inspections, etc. The Risk Management web page at [www.tn.gov/treasury/risk](http://www.tn.gov/treasury/risk) offers a variety of interactive loss prevention training modules, which may be accessed at the user's convenience.

15. Describe any items related to the board that require legislative attention and your proposed

legislative changes.

**The Board is not aware of any items that require legislative changes.**

16. Should this board be continued? To what extent and in what ways would the absence of the board affect the public health, safety, or welfare?

**We believe the Board of Claims, or some similar body, should be in place to fulfill certain key responsibilities. First, when the legislature created the State's limited waiver of immunity, it elected to continue the Board to ensure that an aggrieved party would always have a forum in which to present a claim for damages. While few claims have been filed with the Board, we believe it still serves a vital purpose as a "safety valve" for persons with claims falling outside the State's immunity waiver. Second, while the State's immunity waiver has served one of its intended purposes (protecting state employees from individual suits and liability by permitting actions directly against the State); we still experience a number of suits against State employees, particularly in the federal courts. We believe an entity with the authority to review and, when appropriate, reimburse judgments rendered against state employees needs to be in place. Third, the current Board serves a general financial management oversight role in terms of ensuring the appropriate funding and operation of the Risk Management Fund. The composition of the Board provides an opportunity for a group of state officials to review the funding and operation of the State's program of funding its liabilities in this area.**

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**RISK MANAGEMENT FUND  
INDEPENDENT AUDITOR'S REPORT**

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**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT / DIVISION OF STATE AUDIT  
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897 / FAX (615) 532-2765**

December 4, 2008

Members of the General Assembly  
and  
Members of the Board of Claims  
and  
The Honorable Dale Sims, Treasurer  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying statements of net assets of the Risk Management Fund, an internal service fund of the State of Tennessee, as of June 30, 2008, and June 30, 2007, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the Board of Claims.

As discussed in Note A.1., the financial statements referred to above present only the Risk Management Fund, an internal service fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2008, and June 30, 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Risk Management Fund of the State of Tennessee as of June 30, 2008, and June 30, 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 4, 2008, on our consideration of the Risk Management Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in cursive script that reads "Arthur A. Hayes, Jr.".

Arthur A. Hayes, Jr., CPA  
Director

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**RISK MANAGEMENT FUND**  
**COMPARATIVE STATEMENTS OF NET ASSETS**  
**JUNE 30, 2008 AND JUNE 30, 2007**

	June 30, 2008	June 30, 2007
<b>ASSETS</b>		
Current assets		
Cash	\$ 123,966,156	\$ 116,768,941
Due from federal government	3,340,676	3,332,653
Accounts receivable	0	12,100
Total current assets	<u>127,306,832</u>	<u>120,113,694</u>
Noncurrent assets		
Due from federal government	<u>3,294,074</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<u>130,600,906</u>	<u>120,113,694</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	482,934	684,502
Deferred revenue	7,000	6,000
Claims liability	28,389,349	28,934,275
Total current liabilities	<u>28,879,283</u>	<u>29,624,777</u>
Noncurrent liabilities		
Claims liability	<u>64,488,551</u>	<u>59,525,524</u>
<b>TOTAL LIABILITIES</b>	<u>93,367,834</u>	<u>89,150,301</u>
<b>NET ASSETS - UNRESTRICTED</b>	<u>\$ 37,233,072</u>	<u>\$ 30,963,393</u>

*See accompanying Notes to the Financial Statements*

**RISK MANAGEMENT FUND**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007**

	For the Year Ended June 30, 2008	For the Year Ended June 30, 2007
<b>OPERATING REVENUES</b>		
Casualty premiums	\$ 38,893,900	\$ 15,017,600
Property premiums	5,491,000	5,450,320
<b>TOTAL OPERATING REVENUES</b>	<u>44,384,900</u>	<u>20,467,920</u>
<b>OPERATING EXPENSES</b>		
Torts		
Death	1,742,145	1,957,966
Bodily injury	3,972,936	3,667,255
Property damage	794,530	827,155
Total Torts	<u>6,509,611</u>	<u>6,452,376</u>
Workers' Compensation		
Death	275,251	431,084
Medical	11,117,290	10,587,088
Temporary disability	2,768,288	2,066,577
Permanent disability	6,782,070	6,441,543
Total Workers' Compensation	<u>20,942,899</u>	<u>19,526,292</u>
Property Damage		
Employee property	28,266	18,867
State owned property	1,814,435	5,831,067
Total Property Damage	<u>1,842,701</u>	<u>5,849,934</u>
Property insurance premiums	2,748,524	2,482,031
Professional/ Administrative	9,398,779	9,134,944
Addition to accrued liability	4,418,101	4,993,441
<b>TOTAL OPERATING EXPENSES</b>	<u>45,860,615</u>	<u>48,439,018</u>
<b>OPERATING LOSS</b>	<u>(1,475,715)</u>	<u>(27,971,098)</u>
<b>NON-OPERATING REVENUES</b>		
Grant revenue	3,302,097	3,332,653
Interest income	4,441,672	6,352,648
Taxes	1,625	1,775
<b>TOTAL NON-OPERATING REVENUES</b>	<u>7,745,394</u>	<u>9,687,076</u>
<b>CHANGE IN NET ASSETS</b>	6,269,679	(18,284,022)
<b>NET ASSETS, BEGINNING OF YEAR</b>	30,963,393	49,247,415
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 37,233,072</u>	<u>\$ 30,963,393</u>

*See accompanying Notes to the Financial Statements*

**RISK MANAGEMENT FUND**  
**COMPARATIVE STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007**

	For the Year Ended June 30, 2008	For the Year Ended June 30, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from premiums	\$ 44,397,000	\$ 20,455,820
Payments for claims	(29,313,846)	(31,687,655)
Payments for administrative expenses	(9,392,759)	(9,223,185)
Payments for insurance premiums	(2,936,477)	(2,385,863)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>2,753,918</b>	<b>(22,840,883)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Taxes received	1,625	1,775
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES</b>	<b>1,625</b>	<b>1,775</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	4,441,672	6,352,648
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>4,441,672</b>	<b>6,352,648</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>7,197,215</b>	<b>(16,486,460)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>116,768,941</b>	<b>133,255,401</b>
<b>CASH, END OF YEAR</b>	<b>\$ 123,966,156</b>	<b>\$ 116,768,941</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>		
<b>OPERATING LOSS</b>	<b>\$ (1,475,715)</b>	<b>\$ (27,971,098)</b>
<b>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES</b>		
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	12,100	(12,100)
Increase (decrease) in accounts payable	(201,568)	148,874
Increase in deferred revenue	1,000	0
Increase in claims liability	4,418,101	4,993,441
<b>TOTAL ADJUSTMENTS</b>	<b>4,229,633</b>	<b>5,130,215</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>\$ 2,753,918</b>	<b>\$ (22,840,883)</b>

*See accompanying Notes to the Financial Statements*

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**RISK MANAGEMENT FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND JUNE 30, 2007**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Reporting Entity**

The Risk Management Fund (RMF) is part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as an internal service fund.

**2. Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The RMF generally follows private sector standards of accounting and financial reporting issued prior to December 1, 1989, to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The RMF distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the services provided by the RMF. The principal operating revenue of the RMF consists of charges to its customers for insurance premiums. Operating expenses include claims expenses, insurance premiums, administrative expenses and the current charge to the accrued liability. Revenues and expenses not resulting from the services provided by the RMF are reported as nonoperating revenues and expenses.

**3. Cash**

The primary government's policy regarding the definition of Cash and Cash Equivalents includes cash management pools as cash. Cash deposited in the RMF is pooled with the State Pooled Investment Fund (SPIF), administered by the State Treasurer, which is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, and various U.S. Treasury and Agency obligations. The SPIF is also authorized to enter into securities lending agreements in which U.S. Government securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The SPIF has not obtained a credit quality rating from a nationally recognized ratings agency. Required risk disclosures relative to the SPIF are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Rosa L Parks Avenue, Nashville, Tennessee 37243-0298.

**B. OTHER ACCOUNTING DISCLOSURES**

**1. Risk Management**

It is the policy of the state not to purchase commercial insurance for the risks of casualty losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the RMF. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The RMF is also responsible for claims

*(continued)*

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**RISK MANAGEMENT FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND JUNE 30, 2007**

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for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence, depending on the type of coverage, to an aggregate of \$5 million. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. All agencies and authorities of the state participate in the RMF, except for the Dairy Promotion Board and the Certified Cotton Growers' Organization. The Tennessee Education Lottery Corporation participates in the RMF for general liability purposes but is responsible for its own worker's compensation coverage.

The RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The present value of the casualty liability as actuarially determined was \$84,622,437 (discounted at 3.50%) at June 30, 2008 and \$83,836,098 (discounted at 3.50%) at June 30, 2007. An additional \$300,000 was added to the casualty liability for 2008 for a general liability claim ordered to be paid by the courts. The order occurred prior to June 30, 2008 but had not yet been paid at that date. The data for this claim was not provided to the actuary and thus was not included in the actuarial calculation. The accrued liability for incurred property losses was \$7,955,463 at June 30, 2008 and \$4,623,701 at June 30, 2007. The changes in the balances of the claims liabilities during fiscal years 2007 and 2008 were as follows:

Fiscal Year	Beginning Claims Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Claims Liability
2008	\$88,459,799	\$33,713,312	\$(29,295,211)	\$92,877,900
2007	\$83,466,358	\$36,822,043	\$(31,828,602)	\$88,459,799

The RMF held \$123.9 million in cash at June 30, 2008 and \$116.8 million in cash at June 30, 2007 that is designated for payment of these claims.

The RMF allocates the cost of providing claims servicing and claims payment by charging a premium to each agency based on a percentage of each organization's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole.

## 2. Receivable

The receivables shown on the Statement of Net Assets as due from federal government includes funds to be received from the Federal Emergency Management Agency for property losses that were classified as a disaster. The portion of these funds expected to be received in the next fiscal year is classified as a current asset.

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## **Attachment B**

### **Actuarial Report for the Risk Management Fund**

#### **Introduction**

An actuarial report of the casualty risk financed through the Risk Management Fund is performed each year. There is a two-fold purpose for the valuation. First, the actuarial report determines the appropriate level of required reserves necessary to meet the estimated accrued obligations at fiscal year end. Second, the actuarial report establishes the appropriate level of premiums to be included in the upcoming budget cycle.

For example, this year's actuarial report determined the required reserves at June 30, 2008 and establishes the premiums to be included in the budget for fiscal year 2009-10.

The actuarial report is an evaluation of the state's casualty obligations related to workers' compensation liabilities and tort liabilities. Workers' compensation includes such items as medical, lost time, permanent disability and death. Torts include such items as auto liability, general liability, and medical malpractice.

#### **Background**

The Treasury Department provides various pieces of data to the actuary. This data is used to perform the annual actuarial report. Data collected and transmitted to the actuary includes:

- Employee population and salary data by agency
- Property square footage data by agency
- Watercraft data by agency
- Vehicle data by agency
- Medical professional population by agency
- Hospital data by agency
- Workers' Compensation loss data
- Workers' Compensation reserve data
- Tort liability reserve data

#### **Actuarial Firm**

Willis is the actuarial firm that prepares the actuarial report. Willis has been the actuary for the Risk Management Fund since 1992. Willis was selected by a competitive process (RFP). The current contract with Willis is for five years which began July 1, 2007 and ends June 30, 2012.

#### **Actuarial Report**

The actuarial report was prepared by the following personnel at Willis:

Ed Davenport, Regional Partner and Actuary  
Mike Gunn, Senior Actuarial Analyst  
Heather Lake, Vice President and Actuary

**Recommended Budget Request for 2009-10 for Casualty Risk**

Coverage	2009-10 Premium	2008-09 Premium
Workers Compensation	\$31,464,002	\$33,046,990
Automobile	2,532,600	2,472,400
General Liability	3,949,100	3,888,300
Medical Professional	2,071,999	2,121,000
Total	\$40,017,701	\$41,528,690

Administrative Cost	2009-10 Premium	2008-09 Premium
3 <sup>rd</sup> Party Vendors	\$2,573,000	\$2,748,000
Risk Management	560,000	580,000
Claims Administration	625,000	600,000
Claims Commission	1,350,000	1,300,000
Defense Counsel	2,600,000	2,133,500
Attorney General's office	2,300,000	1,940,800
UT Legal Expenses	150,000	150,000
Total	\$10,158,000	\$9,452,300

	2009-10 Premium	2008-09 Premium
Grand Total	\$50,175,701	\$50,980,990

This budget request for 2009-10 is \$805,289 lower than 2008-09 which represents a 1.6% reduction.